

**OFFICE OF THE MISSISSIPPI SECRETARY OF STATE
SECURITIES DIVISION**

IN THE MATTER OF:)	
)	
SANDERS MORRIS HARRIS Inc.)	Administrative Proceedings
600 Travis, Suite 5900)	Number: S-11-0167
Houston, Texas 77002)	
)	
<i>Respondent</i>)	
)	
)	
RALPH LORD)	
10 Canebrake Blvd.)	
Flowood, Mississippi 39232)	
)	
<i>Respondent</i>)	

ADMINISTRATIVE CONSENT ORDER

WHEREAS, the Securities Division of the Mississippi Secretary of State ("Division"), having the authority to administer and provide for the enforcement of all provisions of the Mississippi Securities Act ("Act") codified at Mississippi Code Annotated §§ 75-71-101 et seq.; and

WHEREAS, Sanders Morris Harris Inc. ("SMH") is a broker-dealer registered in the state of Mississippi; and

WHEREAS, Ralph Lord (hereinafter, sometimes referred to as "Lord" or the "Individual Respondent") was, at relevant times herein, employed by SMH and registered through SMH; and

WHEREAS, the Division has investigated certain recommendations and/or sales involving Lord, supervised by SMH, relating to one or more investments in Remote Knowledge, LLC in 2003 and 2004, including, without limitation, the suitability of sales or recommendations; and

WHEREAS, SMH and Lord have cooperated with the Division's investigation by responding to inquiries, providing documentary evidence and other materials, and providing the Division with access to facts relating to the investigations; and

WHEREAS, SMH and Lord have advised the Division their agreement to resolve the investigations; and

WHEREAS, SMH and Lord elect to permanently waive any right to a hearing and appeal under the Act, with respect to this Administrative Consent Order (the "Order"); and

WHEREAS, SMH and Lord admit the jurisdictional allegations herein, but SMH and Lord ("Respondents") otherwise neither admit nor deny any of the findings of fact, allegations, assertions or conclusions of law that have been made herein in this proceeding;

NOW, THEREFORE, the Division, as Administrator of the Act, hereby enters this Order:

I. JURISDICTION

1. The Division has the power to administer and regulate securities under the Mississippi Securities Act (the "Act") codified at Miss. Code Ann. §§ 75-71-101, *et seq.*

II. RESPONDENT

2. Respondent SMH, also sometimes known as SMH Capital, is a Mississippi-registered broker-dealer and federal-covered investment adviser with a business address of 600 Travis Street, Suite 5900, Houston, Texas 77002. SMH is registered with the Central Registration Depository ("CRD") and has CRD number 20580.

3. Respondent Ralph Lord ("Lord") was at relevant times a Mississippi-registered broker-dealer agent investment adviser representative whose business address is 10 Canebrake Boulevard, Flowood, Mississippi, 39232. Lord's CRD number is 312708. Lord is not currently registered with a broker-dealer.

4. Lord was employed with SMH as a broker-dealer agent from February 1, 2000 until June 22, 2011, and as an investment adviser representative from March 8, 2007 until June 22, 2011. Lord is no longer employed with SMH, nor is he registered through SMH in any capacity.

III. FINDINGS OF FACT

5. Based on a complaint received by the Division, the Division reviewed the actions of Lord and SMH with regard to a particular investor. The Division's investigation revealed:

A. Prior to the time pertinent to the matters addressed herein, Lord had been the broker-dealer agent to Margaret G. Watson ("Watson"). Lord had advised Watson's husband prior to his death, and continued as her adviser.

B. In November 2003, Watson was widowed and living on a fixed income. She was approximately ninety years old. Her portfolio was diversified, with roughly 24% in a money market account, 15% in municipal bonds, 34% in corporate bonds, and 27% in equities. The total value of her SMH account prior to the investment to be discussed below was approximately \$340,000.00.

C. In 2003, Lord began liquidating Watson's account, and in November 2003, assisted and/or advised Watson in purchasing a promissory note from a company named Remote Knowledge, LLC, formerly known as Varitek Industries ("Remote Knowledge"). The Remote Knowledge Promissory Note ("the promissory note") was for \$230,000.00 and in lieu of interest, was designed to pay either 15% cash upon its maturity, or alternatively, to pay a .69% royalty on the gross revenues of Remote Knowledge, LLC, were it to become profitable.

D. In March 2004, Lord advised Watson to sign a conversion note agreement that would convert the promissory note to "Series B Preferred Stock" in Remote Knowledge. The promissory note to Watson was thus canceled, leaving Watson with a preferred stock position in Remote Knowledge.

E. At the time of the conversion, Remote Knowledge had a history of litigation, more than \$5,000,000.00 in losses, and no consistent track record of sales of the communication system it marketed. According to its own SEC filing, Remote Knowledge's common stock was trading at \$3.00 per share. The Remote Knowledge preferred stock was not traded.

F. Upon conversion, Watson's SMH brokerage account reflected the current value of her Remote Knowledge shares at \$230,000.00, the amount of the purchase price.

G. Each SMH brokerage account statement following the conversion from promissory note to preferred stock from 2004 through December 2009 showed the Remote Knowledge shares priced at par with a value of \$230,000.00. In December 2009, the SMH brokerage account statement showed that the shares were no longer priced, and that the account had a value of zero.

IV. MITIGATING FACTORS AND CORRECTIVE ACTIONS

6. The Division finds that the following mitigating factors and corrective actions exist:

A. The transaction which is the subject of this Order was consummated in November 2003. SMH's relationship with Remote Knowledge, the investment issuer, arose in SMH's former Investment Banking Division. SMH spun off its Capital Markets

business, including investment banking, in December 2009. As a result, going forward, SMH is unlikely to participate in the type of transaction that is the subject of this Order.

B. At least by 2009, SMH had developed and implemented enhanced suitability procedures for sale of private placements and other illiquid investments. These procedures include a process for pre-qualifying as accredited investors prospective purchasers of private placements prior to delivering offering materials to such prospects. As part of this procedure, any prospective purchaser of a private placement must sign a Private Placement Prequalification Form before the prospective investor is shown the offering materials, and any prospective purchaser of a private placement, hedge fund, or fund of hedge funds is required to sign an Explanation of Investment Form which discloses suitability considerations and risks associated with investments in private placements. Further, the Explanation of Investment Form, which must be signed prior to the client's signing the issuer's subscription agreement, requires the client to provide information about the client's other holdings in illiquid investments, whether held in SMH accounts or otherwise, to ensure that after the proposed purchase, the client's cumulative concentration in illiquid investments will not exceed 25% of the client's total net worth. Finally, both forms are reviewed and signed by a registered principal who evaluates the suitability of the proposed transaction.

C. In or about July 2010, SMH's clearing firm implemented brokerage account statement price transparency enhancements that provide additional disclosures to clients in the account statements with respect to alternative investments around the pricing source, most recent date that the security was priced, and the limitations on the accuracy of the pricing, if any. The clearing firm attempts to obtain a current pricing

estimate for these investments every thirty days. When a current price for these investments is unavailable, the statement will provide the estimated price as of a specified date. Depending on the type of issue, pricing comes from multiple sources, including independent third-party pricing vendors, market makers, and issuers. Brokerage statements also feature a footnote revealing the pricing source, which in the case of alternative investments (e.g., private equity, private placements, restricted stock, etc.), is typically the issuer or manager of the security. In addition, a clear and conspicuous statement is provided indicating that the values are not guaranteed, are provided for informational purposes only and are intended to reflect an estimate of the interest in the alternative investment and that the securities are generally illiquid and the value may not be realized when liquidated.

D. On February 3, 2014, SMH unconditionally tendered to the attorney for the Estate of Margaret G. Watson the sum of Seventy-five Thousand Dollars (\$75,000.00) as partial reimbursements of losses sustained by Watson. The Estate has accepted this check tendered by SMH.

V. APPLICABLE LAW

7. The Division may employ remedies set out in Miss. Code § 75-71-715 of the Act which sets forth:

Whenever it appears to the Secretary of State that any person has engaged or is about to engage in any act or practice constituting a violation of any provision of this chapter or any rule or order hereunder, he may, in his discretion, seek any or all of the following remedies:

(1) Issue a cease and desist order, with or without a prior hearing against the person or persons engaged in the prohibited activities, directing them to cease and desist from further illegal activity;

(2) (a) Issue an order in the case of an issuer of registered securities, broker-dealer, investment advisor, agent, investment adviser representative, or other person who violated this chapter, imposing an administrative penalty up to a maximum of Twenty-five Thousand Dollars (\$25,000.00) for each offense and each violation shall be considered as a separate offense in a single proceeding or a series of related proceedings; to be paid to the Secretary of State and requiring reimbursement to the Secretary of State for all costs and expenses incurred in the investigation of the violation(s) and in the institution of administrative proceedings, if any, as a result thereof; (b) For the purpose of determining the amount or extent of a sanction, if any, to be imposed under subparagraph (2)(a) of this section, the Secretary of State shall consider, among other factors, the frequency, persistence, and willfulness of the conduct constituting a violation of this chapter or a rule promulgated thereunder or an order of the Secretary of State, the number of persons adversely affected by the conduct, and the resources of the person committing the violation; or

8. Section 75-71-321(b) of the Act sets forth:

(b) The Secretary of State may by order deny, suspend or revoke any registration if the Secretary of State finds (1) that the order is in the public interest and (2) that the applicant or registrant:

- (A) Has failed reasonably to supervise his agents if he is a broker-dealer or his investment advisor representatives if he is an investment adviser; or
- (B) Has failed to pay the proper filing fee.

9. Section 75-71-412 of the Act sets forth:

§75-71-412. Denial, revocation, suspension, withdrawal, restriction, condition, or limitation of registration.

...

(d) **Grounds for discipline.** A person may be disciplined under subsections (a) through (c) if the person:

...

(9) Has failed to reasonably supervise an agent, investment adviser representative, or other individual, if the agent, investment adviser representative, or other individual was subject to the person's supervision and committed a violation of this chapter or the predecessor act or a rule adopted or order issued under this chapter or the predecessor act within the previous ten (10) years;

...

10. Rule 519 of the Rules Enacted by the Secretary under the Act sets forth:

Supervision:

All broker-dealers shall establish and keep current a set of written supervisory procedures and a system for implementing such procedures

which may be reasonably expected to prevent and detect any violations of the Act and Rules promulgated thereunder. The procedures shall include the designation by name or title of thos person delegated supervisory responsibility in at least the areas of sales, financial operations, and compliance. A complete set of such procedures and systems shall be kept in all offices located in this State or be immediately accessible.

11. Rule 521(A)(3) of the Rules enacted by the Secretary under the Act sets forth:

Standards of Conduct: Each broker-dealer and agent shall observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business. Acts and practices, including, but not limited to, the following, are considered contrary to such standards and may constitute grounds for denial, suspension, or revocation of registration, imposition of fines, or such other action authorized by statute.

A. Broker-Dealers.

...

3. Recommending to a customer the purchase, sale or exchange of any security without reasonable grounds to believe that such transaction or recommendation is suitable for the customer based upon reasonable inquiry concerning the customer's investment objectives, financial situation, and needs, and any other relevant information known by the broker-dealer.

See also Rule 521(B)(6).

**VI. ACTIONS BASED UPON FINDINGS, APPLICABLE LAW, AND
AGREEMENT**

12. Action by the Division in response to a violation of the Act is necessary and appropriate in the public interest and for the protection of investors, and is consistent with the purposes fairly intended by the policy and provisions of the Act.

13. The undersigned Respondents agree that this Order contains, constitutes, and embodies the entire agreement between the undersigned, there being no agreement of any kind, verbal or otherwise, which varies, alters, or adds to the Order; and that this Order supersedes any prior communication, understanding, or agreement, whether written or oral, concerning the subject matter of this Order.

14. Respondents, by execution of this Order, affirmatively state that they have freely and voluntarily consented and agreed to the signing of the Order, and that no threats, promises, representations, inducements, or offers of any kind, other than as stated in this document, have been made by the Division or any member of the staff of the Division, or any agent or employee of the Division in connection with the signing of this Order.

15. Based upon the foregoing Findings of Fact, and consistent with the consent of the Respondents, the Division makes the following:

VII. CONCLUSIONS OF LAW

1. The Division is responsible for the enforcement of laws governing the issuance, sale, and other transactions relative to securities pursuant to the Act.

2. Respondent Lord violated Rule 521(A)(3) enacted by the Secretary under the Act, when he recommended the purchase of the promissory note to Watson and violated this Rule again when he recommended the conversion of the promissory note to the preferred stock.

These two recommendations he made resulted in Watson holding investments not suitable for her given her investment objectives and financial situation and needs, and not supported by other relevant information collected by him.

3. Respondent SMH, through its agent Lord, violated Rule 521(A)(3), when the firm, through its agent Lord recommended the purchase of the promissory note to Watson and again when SMH through its agent Lord recommended the conversion of the promissory note to the preferred stock.

4. In violation of Section 75-71-412 of the Act and Rule 519 of the Rules enacted under the Act, SMH failed to reasonably supervise its agents, employees and associated persons by allowing Watson to purchase and hold in an SMH account unsuitable Remote Knowledge investments, consisting of the purchase of the promissory note and then conversion to the preferred stock which were both recommended by Lord or not supported by documentation establishing such suitability.

VIII. ORDER

IT IS HEREBY ORDERED:

1. This Order concludes the open matter with the Division with respect to the Complaint against Respondents reviewed by the Division. However, nothing herein limits the ability of the Division, individually or jointly with other agencies, in pursuing any investigation with respect to any other securities-related matter involving the Respondents.

2. This Order is entered into solely for the purpose of resolving the previously referenced allegations and is not intended to be used for any other purpose.

3. Within thirty (30) days following the entry of this Order, Respondent Sanders Morris Harris Inc. shall pay to the Mississippi Secretary of State's Securities Division an

administrative penalty in the amount of Twenty-five Thousand Dollars (\$25,000.00) and shall reimburse the Division for costs and expenses incurred in the investigation of and in the administrative proceedings related to this matter, in the amount of Ten Thousand Dollars (\$10,000.00).

4. Respondent Lord shall pay to the Mississippi Secretary of State's Securities Division an administrative penalty in the amount of Ten Thousand Dollars (\$10,000.00), to be paid in 4 equal monthly installments, with the first installment due within thirty (30) days following the entry of this Order.

5. Respondent Lord has voluntarily refrained from seeking registration as a broker/dealer agent for the past seven (7) months. Prior to seeking registration as a broker/dealer agent Respondent Lord shall fully and fairly comply with all of the following requirements:

- a. Pay the entire amount of administrative penalty imposed in Section 4 above,
- b. Submit to the Division for prior approval and complete nine (9) hours of financial industry related seminars/training of which three (3) hours shall focus on the topic of suitability, three (3) hours shall focus on compliance and three (3) hours shall focus on ethics, and
- c. Provide evidence of completion of the required training to the Division.

6. In addition, the Division intends to require as a condition of Lord's registration as a broker dealer agent that the broker dealer firm hiring Respondent Lord place Respondent Lord under a program of heightened supervision for a period of one year from the date of his employment with the firm. This heightened supervision shall include at a minimum, such monitoring of Respondent Lord as is necessary to ensure that Lord complies with Rule 521(A) (3). The terms of this supervision shall include an in state supervisor or principal of the firm

must be located in the same city as Lord's office, Lord will not make any sales of private placements or pink sheet stocks for two years, the firm will immediately notify the Division of any complaint or investigation (internal or external) on Lord, principal must review Lord's transactions on a daily basis for a period of 1 year, the firm will send quarterly compliance reports regarding Lord to the Division for a period of 1 year.

7. Respondents shall, fully and fairly comply with all of the following requirements:
 - a. Upon request by the Division, provide all documentation and information reasonably necessary for the Division to verify compliance with this Order.
 - b. Respondents shall not take any action, or make or permit to be made any public statement, denying, directly or indirectly, any finding in this Order or creating the impression that this Order is without factual basis. Nothing in this paragraph affects Respondents' (a) testimonial obligations; or (b) right to take legal or factual positions in defense of litigation or other legal proceedings to which the Division is not a party; and
 - c. Respondents shall fully, fairly, and truthfully disclose all information and produce all records and other evidence in their possession, custody, or control relevant to all inquiries made by the Division concerning the subject matter of this Order, except to the extent such inquiries call for the disclosure of information protected by the attorney-client and/or work product privileges.
8. If either Respondent defaults in any of their respective obligations set forth in this Order, then the Division, at its sole discretion, may vacate this Order with respect to the Respondent in default upon fifteen (15) days' notice to the Respondent in default and without opportunity for administrative hearing and refer this matter for

enforcement as provided in Section 75-71-604(g) of the Act. In the event the Division vacates the Order with respect to a Respondent in default, this will not in any way affect the Order with respect to a Respondent who has fully satisfied the obligations set forth in this Order.

9. This Order is not intended to indicate that Respondents shall be subject to any disqualifications contained in the federal securities law, the rules and regulations thereunder, the rules and regulations of self-regulatory organizations or various states' securities laws. In addition, this Order is not intended to form the basis for any such disqualifications.

10. This Order shall not disqualify Respondents from any business that they otherwise are qualified to perform under applicable law and this Order is not intended to form the basis for any disqualification.

11. This Order contains, constitutes, and embodies the entire agreement between the undersigned, there being no agreement of any kinds, verbal or otherwise, which varies, alters, or adds to this Order; and this Order supersedes any prior communication, understanding, or agreement, whether written or oral, concerning the subject matter of this Order.

12. In the event that one or more provisions contained in this Order shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision of this Order.

13. By their consent to and execution of this Order, Respondents affirmatively represent that they freely agree to the signing of this Order by the Division, and that no threats, promises, representations, inducements, or offers of any kind, other than as stated in this document, have been made by the Division, any member of the staff of the Division, or any agent or employee of the Division in connection with the negotiations and signing of this Order.

ISSUED, this the 24th day of March, 2014.

C. DELBERT HOSEMANN, JR.
Secretary of State

BY: Cheryn Netz
CHERYN NETZ
Assistant Secretary of State
Securities Division

Sanders Morris Harris, Inc.

JACK BRUNO

By: Jack Bruno

Date: 3/19/2014

[Signature]
Counsel for Respondent Sanders Morris Harris, Inc.
Date: 3/20/2014

Ralph Hicks Lord

Date: _____

Counsel for Respondent Lord

Date: _____

Cheryn Netz, Esq.

ISSUED, this the _____ day of _____, 2014.

C. DELBERT HOSEMANN, JR.
Secretary of State

BY: _____
CHERYN NETZ
Assistant Secretary of State
Securities Division


Sanders Morris Harris, Inc.

By: _____

Date: _____

Counsel for Respondent Sanders Morris Harris, Inc.
Date: _____

Ralph Hicks Lord


Date: 3-17-2014

Counsel for Respondent Lord
Date: 3/17/14



Cheryn Netz, Esq.
Assistant Secretary of State, Securities Division
Mississippi Secretary of State's Office
P.O. Box 136
700 North Street
Jackson, MS 39205
(601) 359-1650